

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6588

BILL NUMBER: SB 386

NOTE PREPARED: Dec 20, 2005

BILL AMENDED:

SUBJECT: Earned Income Credit.

FIRST AUTHOR: Sen. Howard

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill increases the state Earned Income Tax Credit from 6% to 10% of the federal Earned Income Tax Credit.

Effective Date: January 1, 2007.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes in this credit. The DOR's current level of resources should be sufficient to implement this change.

Earned Income Tax Credit (EITC) Refunds: The refundable portion of the Indiana Earned Income Tax Credit that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as Maintenance of Effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the current 6% EITC could potentially total about \$11.0 to \$12.0 M annually. This is based on a simulation utilizing state taxpayer data for 2003. The increase in the EITC from 6% to 10% is estimated to increase refunds to about \$25.0 M to \$27.0 M annually. However, the amount of refund total that could potentially be claimed by TANF participants is indeterminable.

Explanation of State Revenues: *Summary:* The bill could potentially reduce revenue from the Individual Adjusted Gross Income (AGI) Tax by approximately \$35.4 M in FY 2008 and \$37.2 M in FY 2009. It is estimated that the revenue loss could potentially increase by about 5.3% annually until the EITC sunsets in 2012.

Background Information: The bill increases the current Earned Income Tax Credit (EITC) from 6% to 10% of the federal EITC beginning in tax year 2007. The current 6% EITC is estimated to reduce AGI Tax revenue by approximately \$53.0 M in FY 2008 and \$55.9 M in FY 2009. Under current statute, the EITC sunsets on December 31, 2011. The sunset provision is not changed by this bill.

Federal income tax data for tax year 2003 indicates that the federal EITC was claimed by almost 426,000 federal income tax filers residing in Indiana. This total was about 2.6% above the 2002 total. The federal credits claimed in 2003 totaled about \$718.3 M, increasing by about 3.8% over 2002 credits. Annual growth in filers claiming the EITC in recent years (1998 to 2003) has averaged about 3.2%, with the growth in the credits claimed averaging about 5.3% annually.

Revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax Database, 2003; Internal Revenue Services, Statistics on Income, <http://www.irs.gov/taxstats>.

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